



COVERSHEET

Minister	Hon Peeni Henare	Portfolio	Tourism
Title of Cabinet paper	Update on Tourism New Zealand's role in Domestic Demand	Date to be published	14 August 2023

List of documents that have been proactively released

Date	Title	Author
May 2023	<i>Update on Tourism New Zealand's role in Domestic Demand</i>	Office of the Minister of Tourism
3 May 2023	<i>DEV-23-MIN-0069 Minute</i>	Cabinet Office

Information redacted

YES / NO

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Office of the Minister of Tourism

Chair, Cabinet Economic Development Committee

Update on Tourism New Zealand's role in Domestic Demand

Proposal

- 1 This paper updates Cabinet on the work Tourism New Zealand (TNZ) undertook following their pivot to a work programme which included domestic marketing during the COVID-19 period. The paper also explains why I have decided to direct TNZ to no longer market to a domestic audience and to instead focus solely on an international audience from 1 July 2023.
- 2 As part of this explanation, I also provide an update on the tourism sector's recovery following the full opening of the border in August 2022.

Relation to government priorities

- 3 Tourism New Zealand's (TNZ) pivot to domestic marketing was one of many tools introduced as part of the Government's response to COVID-19. TNZ's marketing activity was aimed at ensuring continued confidence in the tourism sector and encouraging additional economic activity.
- 4 In 2019, domestic tourism accounted for 60% of all tourism expenditure in New Zealand (pre-COVID-19) and is vital for many firms and regions. It is one of the pillars of the New Zealand Aotearoa Government Tourism Strategy under the principle 'Ngā Manuhiri O Te Ao, O Aotearoa Anō Hoki' – International and domestic visitors, delivering exceptional visitor experiences.

Executive Summary

- 5 Tourism is a key industry for New Zealand's economy. It is a significant employer and has been variably New Zealand's largest or second largest export sector. In the year ending March 2019, Tourism generated \$40.1 billion for the New Zealand economy¹.
- 6 When international borders closed due to COVID-19, Cabinet agreed that TNZ's role be expanded to include domestic marketing throughout the COVID-19 response. The redirection aimed to provide confidence to the industry during the unprecedented shock of no international visitors.
- 7 During the COVID-19 border closure period TNZ delivered campaigns to encourage New Zealanders to take domestic holidays, most notably the *Do*

¹ Tourism Satellite Account, year Ending March 2019 | Stats NZ

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Something New, New Zealand campaign and more recently the *Re_View Your City* campaign which encourages New Zealanders to take city breaks.

- 8 Since the borders reopened in 2022, tourism recovery has been progressing. Air capacity to New Zealand is nearly at 80% of pre-COVID-19 levels, and tourism spend reached \$1.79 billion in the December 2022 quarter², of this \$0.99 billion (55% of 2019 spend) was specifically holiday spend. There is still some way to go, however visitor arrivals and tourism expenditure are indicating the sector is recovering.
- 9 Since the reopening, Ministry of Business, Innovation and Employment (MBIE) officials have led a review, with input from TNZ, on whether domestic marketing should be an ongoing role for government in the medium to long term. After considering the review, and noting the current inflationary and workforce pressures, I have agreed that TNZ should return its focus solely to international markets. It is important to be clear about the role of government, and in this case, it is not about encouraging one sector over others.
- 10 Under the Crown Entities Act 2004, the government has the power to direct a Crown Agent such as TNZ to perform, or not perform, an activity. I have agreed that should it become necessary to activate domestic marketing in response to exceptional circumstances or future shocks, the Government would be able to utilise its power of direction, after following due process, as prescribed in the Crown Entities Act 2004. Under such a scenario the Minister of Tourism would report to Cabinet about their intentions, noting that it would take some time for TNZ to stand the function up again.

Background

New Zealand's Tourism Sector

- 11 Tourism is one of New Zealand's key sectors, generating \$40.1 billion for the economy in the year ending March 2019. In this period, domestic tourism generated 60%, or \$23.7 billion, of the total tourism revenue. The tourism sector is also a significant employer, directly employing 145,032 and indirectly employing 95,845 people in 2022³.
- 12 Tourism generates benefits across a wide range of sectors and regions in New Zealand. Both international and domestic visitors spend money in a range of areas such as accommodation, hospitality, retail and fuel, as well as on visitor attractions such as a rafting trip down the Tongariro river.
- 13 Tourism is therefore defined and measured across a broad range of sectors. There is no one sector, or industry, that captures the full benefits of tourism and as such there is no incentive for them to actively engage in significant overseas marketing. Therefore, most countries have an international marketing agency whose role is to address this market failure.

² Tourism Evidence and Insights Centre, International Visitor Survey: <https://teic.mbie.govt.nz/assets/IVS%20-%20Q4%202022%20results.pdf>

³ Tourism Satellite Account, Year Ending March 2022 | Stats NZ

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- 14 TNZ is the Crown entity tasked with marketing New Zealand as a visitor destination under the *New Zealand Tourism Board Act 1991*. Prior to COVID-19, the agency marketed solely to international visitors.
- 15 Regional Tourism Organisations (RTO's) and predominantly larger tourism operators conducted advertising campaigns aimed at encouraging New Zealanders to travel domestically.

The Impact of COVID-19

- 16 COVID-19 had a significant impact on New Zealand's tourism sector. International tourism spend fell 91.6% in 2021 and international visitors fell from ~3.6 million in 2020 to just ~52,000 in 2021⁴.
- 17 The Government acted across the economy to provide stability to firms and to keep people in their jobs. It was in this context that Cabinet agreed to expand TNZ's role to include domestic tourism marketing [CBC-20-MIN-0132].
- 18 TNZ's activity provided confidence to New Zealanders that the tourism sector remained open for visitors and encouraged Kiwis to travel domestically where they could not travel overseas. The *Do Something New, New Zealand* campaign also encouraged New Zealanders to travel to parts of the country they had not visited before and spend money trying new experiences.
- 19 TNZ worked with RTOs and tourism firms to build campaigns that resonated with New Zealanders and showed the aspects of New Zealand which are more commonly marketed overseas, but which New Zealanders may not be familiar with.
- 20 At the same time as agreeing to expand TNZ's role, Cabinet also noted that the Minister of Tourism would reconsider the scope of TNZ's role once international visitors returned.

MBIE recently undertook a review of government's role in Domestic Tourism Demand

- 21 The Domestic Demand Review (the Review) considered whether central government had a role in domestic tourism marketing in the medium to long term. This was led by MBIE with input from TNZ.
- 22 The review was not an assessment of TNZ's performance during the border closure period, but instead reflected on the role of a centralised marketing organisation within the broader tourism sector and the possible wider consequences of government intervening in encouraging demand in one economic sector over others.
- 23 The Review noted that domestic marketing from a central organisation can positively impact off season travel and regionally dispersed travel, as well as other long standing tourism priorities.

⁴ Tourism Satellite Account, Year Ending March 2022 | Stats NZ

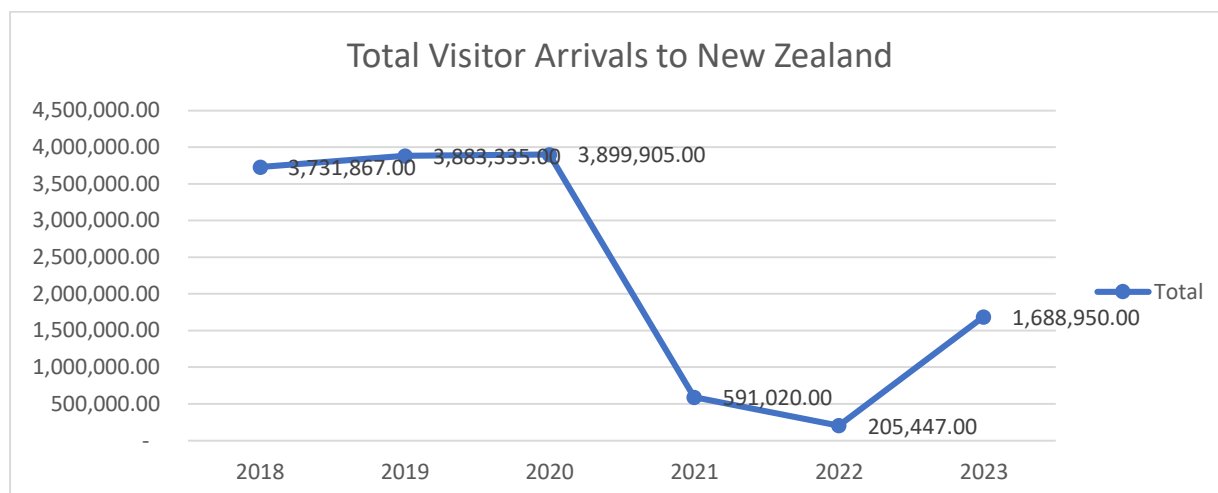
- 24 The Review consultation showed that the domestic campaigns helped to maintain confidence in the sector. New Zealanders spent more on travel domestically in 2021 compared to 2020⁵ - noting borders were closed at this time and there were no alternative travel options beyond domestic and some of this increase may be due to redirected demand.
- 25 MBIE heard from tourism providers and RTOs that domestic visitors were essential to the survival of the sector, and TNZ's activity in pushing proactivity for domestic travel supported this.

Central government investment in domestic marketing can no longer be justified

International Tourism has begun its recovery

- 26 The tourism sector is still recovering from the impact of COVID-19, and whilst this will not be a linear recovery, it is recovering. New Zealand's border fully opened by 1 August 2022 and air capacity to New Zealand has returned to nearly 80% of pre-COVID-19 levels. China's border has been open since 8 January 2023 - with entry requirements being eased slowly.
- 27 Since the New Zealand border partially reopened in May 2022, we have seen steadily increasing visitor arrivals into New Zealand. Annual visitor arrivals as at January 2023 were 1.69 million (see Figure 1), with holiday arrivals at 633,000. This is in a period where China, our second largest tourism market, remained largely closed. The reopening of China for travel will provide a further increase in visitors for the sector.

Figure 1.



Source: Tourism Evidence and Insights Centre, International Visitor Survey December 2022 Quarter

- 28 Tourism Spending is also trending well. This recent summer saw overseas spending reach \$1.79 billion in the December 2022 quarter, of which \$0.5 billion was holiday spend. This is up from \$1.03 billion in the September 2022 quarter. Tourism remains a key export, even while in recovery, sitting now as

⁵ Tourism Satellite Account, Year Ending March 2022 | Stats NZ

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New Zealand's third highest export just behind milk powder, butter, and cheese (\$6.4 billion) and meat and edible offal (\$2 billion).

Ending Tourism New Zealand's role in Domestic Marketing

- 29 The change to TNZ's work programme was introduced to support the sector while the borders were closed because of COVID-19 and providers and regions were facing difficulty because of a lack of international visitors.
- 30 With the reopening of the borders, returning international visitors, and the ongoing tourism recovery I no longer feel it is appropriate for TNZ to continue its domestic function.
- 31 Current workforce pressures are making increasing demand somewhat challenging to keep up with. It is therefore difficult to justify an ongoing role for central government in domestic tourism marketing which may increase pressure. I am also concerned that in continuing with this function government would be opting to support one demand driven sector over others during a fiscally constrained period.
- 32 I have accordingly agreed that all domestic marketing activity from TNZ should cease prior to the new financial year on 1 July 2023.
- 33 I believe TNZ will deliver the best outcome by returning to focus solely on international visitors. No other New Zealand organisation can match TNZ's overseas reach or expertise, where other organisations in New Zealand will continue to market to the domestic audience.
- 34 Though TNZ will no longer carry out domestic marketing, RTOs will continue to undertake their own domestic marketing activity, as will some larger operators (such as Air New Zealand). There are increasing examples of regions combining efforts to allow their activity to reach a wider audience.
- 35 I am confident that New Zealanders will continue to travel domestically as they always have and enjoy our unique tourism offering.

Potential to reactivate Domestic Tourism Function

- 36 While the effects of COVID-19 are receding there remain challenges for our sector on the horizon.
- 37 The Crown Entities Act 2004 and the scope of the appropriation are broad enough to allow the Minister of Tourism to reactivate TNZ's domestic demand function if a nationally significant disruption occurs to the tourism sector.
- 38 Should the Minister of Tourism feel that such a step is needed I recommend they seek Cabinet agreement before proceeding.

Financial Implications

- 39 Cabinet approved a fiscally neutral adjustment to TNZ's appropriation for 2020/21 to provide for funding of domestic activity during the pandemic

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response [CBC-20-MIN-0132]. This had no impact on the operating balance or net core Crown debt and will now return to being prioritised towards international marketing.

40 As I have agreed the function discontinue following the Review, no further investment for domestic activity is being sought and no other financial implications apply to this decision.

41 This decision also does not have any financial implications on TNZ's budget.

Legislative Implications

42 The decision to discontinue TNZ's domestic marketing does not require legislative change.

Impact Analysis

43 There are no regulatory proposals in this paper, therefore Cabinet's impact analysis requirements do not apply.

Population Implications

44 This decision does not have any population implications to be aware of.

Human Rights

45 There are no human rights implications for this paper.

Consultation

46 The Treasury, The Department of Prime Minister and Cabinet, and Tourism New Zealand have been consulted on this paper.

Communications

47 I have informed the TNZ Board Chair of this outcome via a Letter to the Chair of the Board of Directors.

48 MBIE will announce this decision by publishing the Report that shares the findings of the Review on its website and sending a stakeholder alert. Those stakeholders involved directly in the review will also be contacted and informed of the outcome.

Proactive Release

49 This paper will be released proactively, subject to redaction as appropriate under the Official Information Act 1982.

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Recommendations

The Minister of Tourism recommends that the Committee:

- 1 note that Cabinet agreed to direct Tourism New Zealand (TNZ) to market tourism domestically during COVID-19, via an amendment to their appropriation and scope of their mandate;
- 2 note that a review of TNZ's domestic function has now been completed;
- 3 note that the review does not consider it an appropriate ongoing role for government to encourage spend in one demand driven sector over others;
- 4 note that I have agreed that TNZ will stop domestic marketing activity from 1 July 2023 and return to international marketing only;
- 5 note that the Minister of Tourism will have the ability to reactivate the domestic function in the event of an extreme shock;
- 6 agree that the Minister of Tourism will consult Cabinet colleagues in the event of an extreme shock warranting the reactivation of the domestic marketing function;

Authorised for lodgement

Hon Peeni Henare

Minister of Tourism